DRN-5412051

The complaint

Mr R, who is represented in his complaint by his father, complains that Zopa Limited ('Zopa') irresponsibly agreed to give him finance he couldn't afford to repay.

What happened

In July 2022, Mr R acquired a car financed by a fixed term hire purchase agreement from Zopa. Mr R was borrowing £18,490, to be repaid over 60 months by way of monthly payments of £387.29. The total repayable under the agreement was £23,237.46.

I understand the agreement was terminated voluntarily in September 2024.

Mr R and his father say that Zopa didn't complete adequate affordability checks. They say if it had, it would have seen the agreement wasn't affordable.

Zopa didn't agree. It said that it carried out a thorough assessment which included a search of Mr R's credit file and checking his income and expenditure.

Our investigator looked into the complaint and didn't think Zopa had acted unfairly in agreeing to lend to Mr R. But he thought Zopa could and should have dealt with the complaint much sooner than it did, once it had received the complaint from Mr R's father in late 2023. Zopa has accepted our investigator's suggested award of £100 as compensation for distress and inconvenience.

As Mr R and his father don't agree that Zopa acted fairly in granting the finance, the complaint has been passed to me for a final decision.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

We've explained how we handle complaints about unaffordable and irresponsible lending on our website. And I've used this approach to help me decide Mr R's complaint.

Before granting the finance, Zopa gathered evidence and information from Mr R about his ability to repay. From his online application, it established that Mr R was self-employed and receiving a gross annual income of £35,000, which Zopa worked out to be around £2,300 net.

Zopa then took steps to verify Mr R's income with a credit reference agency. This was done by checking Mr R's bank statements for the previous 12 months.

The credit check looking into other borrowing Mr R may have had didn't show any recent adverse markings on Mr R's credit file. In fact, he owed nothing in terms of other types of credit.

To see if the lending was likely to be affordable, Zopa used statistical information to work out what Mr R was likely to have been spending his income on. As Mr R didn't provide details of any housing costs – possibly because it appears he may have been living with his parents at that time - Zopa estimated these and included them alongside the figures for other non-discretionary monthly costs such as food, clothing and utilities.

I agree that it's a point of concern that Zopa didn't do more to look into Mr R's income and its stability, given his self-employed status. The income verification it carried out would only be of limited use in establishing the reliability of Mr R's income stream. And I think the same can be said about Mr R's expenditure. If, for instance, he had monthly committed outgoings that took up a significant proportion of his income, there was the risk that he wouldn't be able to repay the new loan sustainably, even if 'on paper' it looked to be affordable. I don't think it can be assumed that simply because he may have been living at home that Mr R had sufficient disposable income. And so, without knowing more about the stability and also the sources of Mr R's income alongside what Mr's regular committed expenditure was, Zopa wouldn't have got a reasonable understanding of whether the agreement was affordable or not.

It follows that I therefore don't think Zopa completed proportionate checks. However, I next need to consider whether it would have made any difference if Zopa had done these.

One of the ways that a business could be able to find out more about and so verify Mr R's typical spending is by reviewing his bank statements. Mr R sent us some bank statements from the period before the agreement was taken out. He also sent us copies of his HMRC breakdown of income from 2020 to 2024. I think these give a fair indication of what Zopa would likely have found out had it completed proportionate checks.

Broadly speaking, the statements show that Mr R was receiving an average net monthly income of just over £1,800. That looks to be a more accurate figure – having noted his tax return figure for that year – and is lower than what Mr R had indicated on his finance application. I've also seen this included an element of state benefits. However, given that there's only limited detail about Mr R having committed expenditure, it appears that Mr R had a significant part of his income available to him to use as disposable income. So, having reviewed the account transactions over this period, the new monthly payments of £287.29 looked to be something he'd be able to afford and that those payments could be made sustainably. I say this taking on board the likelihood that Mr R would most likely be making a contribution towards the costs of living at home. It still comes back to the same point that, based on these figures, I think the agreement was likely to have been affordable to Mr R.

I've also carefully considered the response by Mr R and his father to our investigator's findings. This includes some further information about Mr R's personal situation which, if he'd volunteered details or been asked about it during the application process, might have prompted some further enquiry. The question I have to ask though is whether the lending was fair. On that basis, I'm in agreement with our investigator that Zopa should have carried out more thorough checks, but from the evidence and information I've seen I don't think better checks or enquiries would have been likely to affect the decision to lend.

In relation to the difficulties Mr R and his father had in trying to make Mr R's complaint to Zopa at the start, I agree that Zopa ought to have progressed matters much sooner than it did.

It follows that, taking all of this into account, I don't think Zopa acted unfairly when approving the finance application. But, if they haven't done so already, I'm in agreement that they should pay Mr R £100 for distress and inconvenience.

Finally, I've considered whether the relationship between Mr R and Zopa might have been unfair under Section140A of the Consumer Credit Act 1974. However, for the reasons I've already given, I don't think Zopa lent irresponsibly to Mr R or otherwise treated him unfairly. And I haven't seen anything to suggest that Section 140A or anything else would, given the facts of this complaint, lead to a different outcome here.

I am sorry to have to disappoint both Mr R and his father with what I know won't be the outcome they were hoping for in relation to Zopa's lending decision.

My final decision

For the reasons given above, I don't uphold the part of this complaint that's about the decision to approve and provide the finance. But I do require Zopa Bank Limited to pay Mr R £100 for distress and inconvenience, if it hasn't done so already.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr R to accept or reject my decision before 30 May 2025.
Michael Goldberg
Ombudsman